Talking Points for the DCI

I. Poland

Continued repression by the martial law regime, latent popular anger, sporadic acts of open resistance, and signs of more organized underground opposition are keeping the atmosphere in Poland volatile. General Jaruzelski made it clear in his speech to the Party Central Committee on Wednesday that the regime will look for accommodation with Polish society only after it has suppressed all opposition.

Spring is now a key juncture: warmer weather, food shortages, and the impact of price rises will greatly increase the possibility of violence. To keep control the regime will have to continue, and possibly to extend, the use of repressive measures.

- -- If the regime can make it through the spring, its chances for maintaining control the rest of the year will improve.
- -- For the next 12 months we think the odds favor the maintenance of control by Polish security forces but believe there will continue to be a significant (25 percent) risk of a breakdown of order accompanied by Soviet intervention.

The overall economic situation continues to deteriorate, although retail food markets are now temporarily better supplied.

- -- Industrial output fell 14 percent last month and hard currency imports fell by more than 40 percent.
- -- Grain procurement continues to lag far below minimum needs and the regime may feel compelled to take high risk steps such as compulsory procurements from farmers.

Western sanctions, as well as privately-instituted credit restrictions, have exacerbated these economic problems.

-- Warsaw is prevented from importing on credit and using export earnings to pay interest to banks. The planned trade surplus with the West to pay some debt service means fewer imports.

-- Industrial production has been hard hit by the reduced access to Western inputs, which is also affecting wages and employment.

-- Lower imports of Western agricultural products means less food, especially meat, for the population.

3 -- The risk of default has increased as the trade surplus will amount to less than half of 1982 interest obligations to private banks alone.

In addition, poor performance of the Polish economy is negatively affecting economic activity in other East European countries.

II. <u>The USSR</u>

The Soviet Union's own economic situation is grim:

-- The economy is growing way below planned rates (less than 2%) and a scaling down of the current five-year plan has been necessary before the plan is even one year old.

-- The Soviet dilemma is epitomized by the lack of action in creating a "food program" -- which Brezhnev himself described as the top economic priority exactly one year ago.

-- In external finances, the Soviet Union is showing increasing anxiety as it is faced with greater-than-expected agricultural imports, soft prices for its two main export items (oil and gold), 25X1

the necessity of providing some aid to Poland, and uncertainties about how future US policy will affect credits for the East.

The two main Soviet hopes for the future are hard currency income from the Yamal pipeline and Western credits. As you know, when completed the first string of the pipeline will earn the Soviets annually about $5 billion. The Soviets will need to borrow $6-8 billion to build the pipeline. West European credit packages to cover this sum have generally been agreed in principle, but few if any credits have actually been disbursed:

25X1

25X1

As to non-pipeline related credits, the Soviets now have available approximately \$13.5 billion in government-backed commitments, of which they have drawn about \$8.5 billion -- leaving \$5 billion undrawn.* [redacted] we presume that there is only a small undrawn pool of non-pipeline related commercial credit commitments since there have been no recent syndicated loans; that is, loans have been non-project and short-term.

25X1

25X1

---

* Our data on government-backed commitments and, especially, on drawings is incomplete. Information about <u>commitments</u> comes from the Berne Union and lags by approximately three months, while information on <u>drawings</u> is based upon a NATO compilation supplemented by estimates: the last full NATO report was received in June 1982 and covered the period 1978 to mid-1980. (See Tab G.)

ILLEGIB